86th Legislative Session – 2011

Committee: Joint Appropriations Thursday, February 17, 2011

P - Present
E - Excused
A - Absent

Roll Call

P Sutton
P Haverly
P Heineman
P Novstrup (Al)
P Peters
P Putnam
P Rampelberg
P Dennert
P Wismer
P Juhnke
P Bolin
P Romkema
P Dryden
P White
P Tidemann
P Carson
P Brown, Vice-Chair
P Wink, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Chairman Dean Wink.

Department of Social Services

Secretary Kim Malsam-Ryson met with the Joint Appropriations Committee to discuss the department's FY12 budget. Also in attendance were Lynne Valenti, Brenda Tidball-Zeltinger, Larry Iverson, Carrie Johnson, Marilyn Kinsman, Virgena Wieseler, Terry Walter, Patricia Monson, Mark Close, Cory Nelson, Shawna Fullerton and Gib Sudbeck. Documents 1-4 were distributed.

The department's FY12 recommended budget includes $364,325,077 in general funds, $631,723,553 in federal funds and $9,050,460 in other funds for a total of $1,005,099,090 and

1,640.6 FTEs. This is an overall reduction of $28,034,221 from the FY11 budget, including an increase of $22,654,302 in general funds, a decrease in federal funds of $48,720,788 and $1,967,735 in other funds as well as an increase of 6.3 FTE. The budget is comprised of 62.9% federal funds, 36.2% general funds and 9% other funds. Secretary Malsam-Ryson said 77.4% of the federal funds deal with Medicaid and CHIP.

Major Expansions and Reductions

- FMAP – An increase of $33,408,520 from the general fund due to changes in the FMAP rate. This results in an appropriation shift from federal funds to the state's general funds.
- Changes in Medicaid – An increase of $16,370,527 from the general fund due to mandatory inflation for Medical Services, Medicaid growth and Medicaid utilization and restoring a one time cut to Medicare Part D.
- Behavioral Health Reorganization move from Department of Human Services to Department of Social Services. This includes an increase of 6478 FTEs, an increase of $55,370,247 in general funds, $37,112,207 in federal funds and $2,572,278 in other funds for a total increase of $95,054,734.
- A 10% cut to provider rates. This is a reduction of $25,053,985 from general funds, $33,713,029 in federal funds and $120,471 in other funds for a total reduction of $58,887,485.
- An increase of $115,665 from general funds and $105,328 in federal funds for a total of $220,993 due to increased office space costs.
- A reduction of $100,852 in general funds, $60,228 in federal funds, and $5,346 in other funds due to reduced travel.
- A reduction of $256,730 in general funds, $368,082 in federal funds and $6,923 in other funds for a total of $631,735 due to reductions in the rates paid to the Bureaus.

Secretary Malsam-Ryson said the Federal Medical Assistance Percentage (FMAP) is currently at 34.91% and will increase to 40.34% in FY12. The net impact to general funds from the 1% increase is $6.5 to $7 million. Senator Haverly asked how soon in advance the department is made aware of FMAP changes. Secretary Malsam-Ryson said final FMAP changes come in September of each year, so the budget is built on projections before the FMAP changes are made. FMAP funding is based on the federal fiscal year (October 1-September 30). To translate the federal fiscal year into the state fiscal year they develop a blended FMAP rate by using the FMAP rate in effect for each quarter. This includes a blend of 1 quarter from one federal fiscal year and 3 quarters from another federal fiscal year.

Secretary Malsam-Ryson said the current CHIP state match of 26.86% is increasing to 28.24% in FY12.

Changes in Medicaid costs also have a major impact on the department budget. This change in FY12 is a $16,370,527 increase in general funds for mandatory inflation for medical services, Medicaid growth and utilization and Medicare Part D, to restore a onetime cut.

Another impact to the budget is the Behavioral Health reorganization from the Department of Human Services to the Department of Social Services. This reorganization involves an increase of 647.8 FTE, an increase of $55,370,247 general funds, $37,112,207 in federal funds, and $2,572,278 in other funds, for a total increase of $95,054,734.

Secretary Malsam-Ryson said major impacts to the budget in the way of reductions include:

- Provider reimbursement rate reductions totaling $58,887,485 ($25,053,985 in general funds).
    - Economic Assistance – reduction of $850,824 ($748,953 in general funds)
    - Medical & Adult Services – reduction of $52,136,864 ($20,881,791 in general funds)
    - Children's Services – a reduction of $2,380,922 ($1,218,748 in general funds) and
    - Behavioral Health – a reduction of $3,518,874 ($2,204,493 in general funds).
- Eliminate Graduate Medical Education Program – a reduction of $3,038,423 ($1,225,700 in general funds).
- Child Care Quality Initiatives – a reduction in general funds of $1,331,015.
- Child Care Subsidy – a reduction of $627,170 in general funds.
- Other reductions – a reduction of $3,982,314 in general funds.

<u>Office of the Secretary – recommended budget of $26,630,783 and 182.7 FTEs</u>
Budget changes include an increase of $196,427 in general funds, $73,360 in federal funds, a reduction of $202,896 in other funds and an increase of 5.5 FTEs. Budget changes include:

- Swap of FMAP funding from federal funds to general funds of $8,991.
- A decrease in Personal Services of $167,268 ($69,312 in general funds and $97,956 in federal funds) and 3.5 FTEs.
- Other reductions totaling $343,974 ($29,363 in general funds, $111,715 in federal funds and $202,896 in other funds) for office space, travel, internal service funds, and SNAP incentive fund reductions.
- Department of Human Services to Department of Social Services reorganization: an increase of 9 FTE, $286,111 in general funds, and $292,022 in federal funds for a total of $578,133.

<u>Division of Economic Assistance – recommended budget of $87,590,491 and 320.3 FTEs</u>
Budget changes include:

- FMAP change of $10,628 from federal to general funds.
- An increase in federal funds of $1,827,412 due to a TANF case load increase of 386 individuals.
- An increase of $80,280 for SSI State Supplementation for a projected increase of 446 individuals.
- A reduction of $6,000,000 in federal funds for the Weatherization program.
- A reduction of $748,953 in general funds, $87,491 in federal funds and $14,380 in other funds due to a 10% provider reimbursement rate reduction.
- A reduction of $204,470 in general funds and $113,022 in federal funds due to reducing SNAP employment and training from 20 counties to 2.
- An increase in federal funds of $96,782 and 1.0 FTE for the Health Insurance Exchange grant.

- A reduction of $21,209 in general funds and $21,209 in federal funds for the reduction of 1.2 FTEs due to the elimination of the Sales Tax on Food Refund Program and the reduction of 1.0 Program Assistant.
- An increase of $3,822 in general funds and a decrease of $18,622 in federal and $116,716 in other funds costs associated with office space, travel, internal services and reductions under Medical Eligibility & SNAP incentive funds to realign the budget to expenditures.

Secretary Malsam-Ryson presented information on actual and projected numbers for the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) Program. In December 2010, 43,144 households received economic assistance through the SNAP program. The average monthly projection for FY12 is 49,670. In addition, 3,303 families received TANF assistance in December 2010 with a monthly projection of 3,624 in FY12. Senator Peters asked for clarification on the eligibility requirements for SNAP under ARRA funds. Ms. Zeltinger said under the Stimulus Program the impact to SNAP was a 13% increase in benefit level through 2014. The department will provide additional information.

Senator Heineman asked for additional information on the effectiveness of the SNAP employment and training program. Secretary Malsam-Ryson said in FY10 there were 3,359 job placements in the SNAP employment program. The Committee was reminded that 66% of the participants are in 2 counties.

Senator Putnam asked about the $6,000,000 reduction in the weatherization program. Secretary Malsam-Ryson said the dollars will have been spent so the federal spending authority will no longer be needed. This is a partial reduction of what will be spent by FY12. Ms. Zeltinger said the state had initially received $24.4 million and has spent $9.5 million through January 2011. The department's goal is to do 3,200 different weatherization activities and has met 50% of that goal. The weatherization funds are available through September of 2015, and the department will continue to phase out the unneeded authority over the next few budget cycles.

<u>Division of Medical Services – recommended budget of $539,478,701 and 50.0 FTEs</u>
The recommended budget involves $181,113,374 in general funds, $358,077,827 in federal and $287,500 in other funds. The FY10 average monthly eligibles included 6,957 elderly, 16,856 disabled, 2,827 pregnant women, 10,900 low-income adults, 61,275 children of low-income families, 12,188 children covered by CHIP for a total of 111,005. The department projects 36,411 Title XIX adults, 70,203 Title XIX children and 12,838 CHIP children in FY12.

Budget changes include:
- FMAP change of $21,357,236 from federal funds to general funds.
- An increase of $2,607,375 in general funds and $3,856,124 in federal funds due to increased utilization of Medical Services.
- An increase of $3,833,167 in general funds and $6,263,214 in federal funds due to increased Title XIX clients (3,986).
- An increase of $143,150 in general funds and $363,752 in federal due to the growth of Title XXI clients (306).

- An increase of $3,297,548 in general funds and $4,876,839 in federal funds due to the increase of High Cost Claims.
- An increase of $69,489 in general funds, $208,466 in federal funds and 4.0 FTEs due for a new utilization management program.
- An increase of $6,456,063 in federal funds for Indian Health Services.
- An increase of $6,489,287 in general funds to restore the one-time cut to Medicare Part D.

- An increase of $1,529,227 in general funds and $1,393,147 in federal funds due to Medical Services mandatory inflation.
- A reduction of $1,225,700 in general funds and $1,812,723 in federal funds due to elimination of the Graduate Medical Education Program.
- A reduction of $12,811,276 in general funds and $19,510,004 in federal funds due to provider reimbursement rate reductions.
- A reduction of $1,211 in general funds and $4,457 in federal funds for office space and reductions to internal services.

Secretary Malsam-Ryson told the Committee this is the largest FMAP impact within the state because it includes the medical services budget. The dollars needed to support this FMAP rate do not support any new service delivery; it's just to continue the program.

Secretary Malsam-Ryson said from FY09 to FY10, the national average growth in Medicaid expenditures was 8.8%; in South Dakota the growth of was 7.6%. Thirty other states spend more per Medicaid enrollee than South Dakota. In addition, South Dakota Medicaid expends the 2nd lowest amount in the nation on administration of its program. Representative Wismer asked for a clarification on the administrative rate. Secretary Malsam-Ryson said the rate is a reflection of total expenditures.

Senator Peters asked the department to provide a breakdown of costs for Medicaid Average Monthly Eligible Totals involving CHIP Children, Title XIX Children and Title XIX Adults.

Senator Haverly referenced information from past sessions that showed as unemployment rates went up the Medicaid rates went up as well. Unemployment rates are leveling off so when would the state expect the Medicaid rates to come back down. Secretary Malsam-Ryson said they will continue to see increased costs for services. The projection is the rate of the increase and part of that is a component of the growth in eligibles. So to the extent that other factors control growth of eligibles, i.e. the unemployment rate, that will temper the overall growth rate in this area. Secretary Malsam-Ryson said to the degree that unemployment rate is an indicator of our per capita income, FMAP goes up.

Secretary Malsam-Ryson said Growth of High Cost Claims is a new item and involves clients that experience claims over $50,000 in a year. The department has been tracking this issue for a number of years and continues to see an increase in this area. The total dollar impact is $8,174,387. The department is concerned about this increase and wants to see this trend line level off and decrease. To work toward that goal the department is looking to increase utilization management of health care services in the Medicaid Program. The department is requesting an increase of 4 FTEs (nurses) to work to lessen the growth of high cost claims. Senator Heineman asked how the department would gauge the success of the primary care management program. Secretary Malsam-Ryson said utilization management would be in addition to the primary care case management program. The department looks at various measures that tie back to activities such as emergency room usage, etc. Department staff will continue to meet with doctors and providers to look at options for cutting expenses.

Secretary Malsam-Ryson explained the Medical Services Mandatory Inflation to federally qualified health centers, critical access hospitals, Medicare crossovers, Medicare Part A, Part B, expanded Medicare, and Part D. This is not all providers but includes areas where the Medicaid Program is required to pay certain Medicare premiums for low income individuals (Medicare Part A, Part B) and also when the state was required to pay Medicare crossover claims where Medicare is the primary and Medicaid becomes secondary payor. The state has to pay the rates established by the federal government in those areas. Secretary Malsam-Ryson reminded the Committee that no other providers will receive inflationary increases in FY12 except those listed here. Because this will require changes to administrative rules that deal with the way the department reimburses providers, they will be bringing rule changes to support the department's policy of not providing inflationary increases other than where absolutely required.

Representative Carson asked how long the Graduate Medical Education Program had been in place. Secretary Malsam-Ryson said in terms of Medicaid funding this has evolved over the past 3-4 years. The program was previously supported by the Department of Health. Senator Sutton asked how successful the program had been. Secretary Malsam-Ryson said it served the necessary function of training medical personnel in South Dakota with the hope they would stay in South Dakota. In FY10 approximately 51 interns and residents were supported at South Dakota's 3 largest hospitals.

In regard to the provider reimbursement rate reduction, Secretary Malsam-Ryson said a recent survey done by the medical association showed that doctors felt there would be some changes in access and the department has heard a lot of feed back on the proposed budget. Secretary Malsam-Ryson said the methodology for reimbursement of pharmaceuticals changed at the federal level last fiscal year and because pharmacies saw a 4% reduction last year, they will only see a 5% reduction this year. Senator Heineman asked if there was a formulary in Medicaid for pharmacy. Secretary Malsam-Ryson said yes, in addition they have various cost containment measures such as differential co-pays for generic drugs, a sort of step-therapy for certain types of drugs where cheaper drugs must be tried first before the others are authorized.

<u>Public Comments</u>

Dave Hewett, with the SD Association of Health Care Organizations told the Committee his group is opposed to the proposed budget cuts and sees the cuts as predictable actions by providers that will render it to be a tax increase. Hospital rates will increase; doctors will likely avoid providing care so that individuals will end up in emergency rooms. In addition, private pay residents in nursing homes will pay more to make up the difference. In regard to the graduate program reduction, Mr. Hewett said this program is the most effective way to keep young physicians in the state. Mr. Hewett urged the Committee look at other revenue options, increase sales tax, or look at the health care trust funds.

Cindy Morrison, Vice President of Health Policy at Sanford Health said her organization is offering to obtain and provide consultants to work with the state to explore and pursue appropriate federal waivers from CMS that may give them the opportunity to put in place things like enhanced medical homes, to look at the pharmacy issue, and to look at care coordination and work to reform Medicaid.

Scott Zieske, Director of Governmental Affairs for Regional Health, the parent corporation of Rapid City Regional Hospital said his organization believes the budget cuts will absolutely reduce access to medical care in South Dakota resulting in higher costs, more Medicaid patients in the emergency rooms, more home health care and nursing home patients; and many of the subsidized services will be cut or reduced. In addition, a loss of the federal matching revenues will cause a larger financial burden to the system, the state of South Dakota and most importantly, the patients. Regional Health is willing to help create more short term and long term solutions and will make available to the state of South Dakota their considerable health information systems and electronic medical record capabilities to assist in conducting claims analysis, particularly the high cost claims.

Deb Fischer-Clemens, Vice President of Avera Center for Public Policy told the Committee that while Avera Health has several large hospitals they also have several small hospitals and nursing homes in rural areas of South Dakota. Avera is very concerned about jeopardizing the ability of rural residents and patients to access health care. Avera has always been willing to work with the state on health issues and will continue to do so. One way Avera can assist is by becoming involved in case management by providing resources for administering a highly qualified case management system.

Dr. Dan Goede, President of the SD Dental Association told the Committee the 10% cuts will drop Medicaid rates for dentists who provide medical services to 56% of what the states largest insurer pays. That rate is below the breakeven point for a majority of dentists in South Dakota. Currently 81% of the dentists in South Dakota participate in the Medicaid program which is the highest rate of participation in the nation. Some will continue to participate regardless of the rate but they can not continue to do so at a loss. A recent survey of the association members shows that 30% will continue, 50% will reduce the number of patients and 15% will drop out of the Medicaid program. The cuts to the dental program are projected to save the state $640,000. The association fears that savings will be wasted in emergency room visits.

Brett Koenecke, with the SD State Medical Association told the Committee his association is opposed to across the board cuts and urged the Committee to consider better utilization review. The inter-related systems all have affects on one another. A decrease in rates to physicians will result in increased use of emergency rooms which will increase costs to the Medicaid system.

Diana Rajski, President and CEO of Children's Care Hospital & School and John Clarke, Chief Financial Officer briefed the Committee on the services provided at Children's Care Hospital, a medically complex facility. Ms. Rajski said the total impact to Children's Care Hospital and School inpatient and residential programs is $1,200,000 with Medicaid providing 90% of the funding for these programs.

Angie Svihovec, representing Mobridge Regional Hospital and Clinics, spoke to the isolation of their facilities that serve a disproportionate share of the Medicaid population in the state. Ms. Svihovec said they know the impact will be great and fear providing physician and hospital services, assisted living, swing bed, home and community health services, knowing they will need to make changes to help out in the short term, but not in the long term. Ms. Svihovec said they are also willing to work with whoever necessary to make sure the management of the system is within the means of the state.

Paul Knecht, Executive Director of the SD Dental Association said nearly all expenses in dental care are preventable. The dental association is willing to work with the department on solutions. One area where there is potential savings would be Indian Health Services. Mr. Knecht said under treaty obligations today, the federal government provides money; however, a good share of the people seek dental care from private dentists. Approximately 40% of the cost of private care comes to the state opposed to if they were under a Indian Health Services provider it would be 100% funded by the federal government.

In response to public testimony, Secretary Malsam-Ryson told the Committee the department works with the providers every single day. In addition to other committees, the Governor recently established a Medicaid Working Group to look at other options for service delivery to help bend the trend on cost increases.

Senator Brown commented that when the budget cuts were first brought forward, one of the things the Committee noticed was that the cuts apply strictly to the providers and that perhaps the utilization part had been forgotten about. The Committee appreciates the department's efforts to move forward with that review effort.

<u>Division of Adult Services and Aging – recommended budget of $171,116,637 and 99.0 FTEs:</u>
Budget changes include:

- FMAP change of $8,821,850 from federal funds to general funds.
- A reduction of $1,000,000 in federal funds from Victim's Services due to ARRA funding.
- A reduction of $8,060,515 in general funds and $11,647,322 in federal funds for Provider Reimbursement Rate Reductions.
- A reduction of $127,957 in general funds and $98,871 in federal funds to eliminate funding to Retired Sr. Volunteer Program, Caregiver Support Groups, and Senior Companion Programs.
- A reduction of $30,601 in general funds, and $16,501 in federal funds for reduction to contracts for legal services to the elderly, dietician contracts, and victim's services grants.

- An increase of $997,155 in general funds and $126,002 in federal funds and a decrease of $1,123,157 in other funds to restore general funds from prior one-time adjustments between general and other funds for in-home services.
- An increase of $4,896 and $2,472 in federal funds and a decrease of $458 in other funds for office space, reductions in travel and reductions in internal service funds.

Senator Brown asked for the average number of nursing home residents on Medicaid. Secretary Malsam-Ryson said 57% of nursing home patients across the state are funded through Medicaid and that percentage will vary by facility.

In response to Representative Dennert's question regarding "one time funding" for In-home services, Ms. Zeltinger explained that in the FY08 budget the department made an adjustment that reduced general funds and utilized some one-time other fund revenue from fees. The increase in general funds in the FY12 budget reverses that adjustment.

With regard to the programs being eliminated, Senator Heineman asked if individuals would be able to receive services elsewhere, in particular In-home services. Secretary Malsam-Ryson said In-home services are income based and if an individual is eligible for In-home services, they would remain eligible. The services being eliminated are not the same as In-home services. The programs may remain intact; however, the department will no longer provide funding. Senator Sutton asked if the eliminated programs would be shut down or are there other funds available. Secretary Malsam-Ryson said the RSVP program does have other funding available; however, she was not sure if the Caregiver Support groups or the Senior Companion Program had other funding.

Public Comments

Sally Damon, Administrator of the United Retirement Center in Brookings spoke to the amount of paper work and regulations involved in managing the facility and suggested the legislators and department tell the federal government enough is enough. Senator Brown commented that he shared her frustration with federal regulations and asked if there were things on the state level that could be changed to alleviate issues with state regulations. Ms. Damon said she sees a redundancy in reporting, currently 24 agencies, divisions or departments regulate nursing homes. Ms. Damon wants to share in the review to cut down some of the reporting and repeat documentation. Senator Tidemann asked how many residents at Ms. Damon's facility were are on Medicaid. Ms. Damon said it fluctuates between 47% and 52%. Senator Haverly asked Ms. Damon to provide the Committee with a list of the duplications.

Mark Deak, Executive Director for the SD Health Care Association said his group had recently conducted a poll among 800 registered voters in South Dakota. Poll results show that 76% responded No to the question, "should the budget be balanced by cutting services to the elderly and disabled". Mr. Deak's association suggests the Legislature look at earnings from the health care trust fund to help with this budget issue. Senator Brown requested a copy of the mentioned survey. Representative Bolin asked Mr. Deak for information on the 4 nursing homes that were closed. Mr. Deak said Parker closed in 2000, Letcher and Dell Rapids in the early 2000's and

Lake Preston in June of 2008. Mr. Deak said the closures were very difficult for the residents that had to be moved yet again especially if there are no vacancies in nearby facilities.

Sam Wilson, with AARP of South Dakota told the Committee that while his organization understands the budget issues, they are concerned about the cuts. AARP is focused on home and community based services, elderly nutrition programs, those programs that try to keep older residents out of the higher cost facilities. While the elderly nutrition program is slated for only a 5% reduction, the fact remains this may be too much and will possibly eliminate the only meal an individual receives.

Division of Child Support – recommended budget of $7,200,056 and 83.0 FTEs
Budget changes involve:

- An increase of $362,500 in general funds and a like decrease in federal funds because under ARRA, Child Support Incentive Funds can no longer be used as a match after September 30, 2010.
- A reduction of $26,152 in general funds, $50,764 in federal funds and 2.0 FTEs (a Senior Claims Clerk and a Child Support Specialist).
- A reduction of $51,680 in general funds and $100,320 in federal funds for a 10% reduction to contracts regarding Child Support Prosecutors and Referees.
- A reduction of $54,702 in general funds, $100,572 in federal funds and $7,457 in other funds for other reductions for office space, reductions in travel and internal service funds.

Division of Child Protection Services – recommended budget of $58,267,713 and 241.8 FTEs
Budget changes involve:

- FMAP change of $1,476,318 from federal funds to general funds. This involves children in state custody at psychiatric residential treatment facilities.
- An increase of $463,042 in general funds and $308,991 in federal funds for subsidized adoptions.
- An increase of $26,321 in general funds and $20,231 in federal funds for subsidized guardianships.
- A decrease of $1,218,748 in general funds, $1,153,830 in federal funds and $8,344 in other funds due to provider reimbursement rate reductions.
- An increase of $5,284 in general funds and $4,693 in federal funds for office space costs and reductions to internal service funds.

Representative Carson asked for information on the Subsidized Adoptions payments. Secretary Malsam-Ryson said this subsidy goes to the adoptive parents to help pay for the cost of raising a child and payments go until the age of majority. These are children that have been placed into the state's custody; the birth family is not involved and generally the children tend to have greater needs than the average child.

Division of Child Care Services – recommended budget of $20,338,108 and 25.0 FTEs
Budget changes involve:

- An increase of $125,198 in general funds and a like decrease in federal funds due to a Child Care Block Grant Match increase.

- A reduction of $1,331,015 in general funds due to the reduction in Child Care Quality Initiatives.
- A reduction of $627,170 in general funds due to a reduction in Child Care Subsidy Eligibility Level.
- A reduction of $19,246 in general funds, $28,463 in federal funds and 1.0 FTE (Child Care).

- An increase of $11,359 in general funds, $2,784 in federal funds and $12,707 in other funds for office space, reduction in travel and reductions to internal service funds.

Secretary Malsam-Ryson said the Child Care Block Grant match is impacted by FMAP rates; the reduction in Child Care Subsidy Eligibility Level will impact an estimated 250 families and the reduction in Child Care Quality Initiatives will bring the amount down to the federally required minimums.

Public Comments

Betty Oldenkamp, with the SD Association of Youth Care Providers spoke to the Committee regarding Child Protection Services. Ms. Oldenkamp said her organization has a good working relationship with the department and has great respect for what Governor Daugaard is trying to accomplish. However, they are not able to shift costs to other payers and not able to not serve Medicaid eligible kids. The association has reviewed their budgets and has found places where they can cut costs, but not 10%. Ms. Oldenkamp said there are no easy quick fixes to the issue; however, there is an opportunity if they can build up their capacity, to provide services to families in communities so that they can decrease that dependency on the higher cost residential placements, and that keeps kids at home with their families. The challenge is to find a way to build that capacity.

Human Services Center – recommended budget of $40,897,615 and 560.5 FTEs.

Secretary Malsam-Ryson told the Committee the Human Services Center (HSC) in Yankton is the state's only public psychiatric hospital serving clients age 11 to end of life. HSC is a licensed inpatient specialty hospital and accredited nursing home. Budget changes involve:

- FMAP change of $494,001 from federal funds to general funds.
- An increase of $301,377 in general funds for the dietary bond payment.
- A reduction of $11,556 in general funds and $63,270 in federal funds for utility costs.
- A reduction of $162,744 in general funds and $29,625 in federal funds for food service costs.

- A reduction of $343,110 in general funds for the energy loan, the final payment will be made in FY11.
- A reduction of $1,537,963 in general funds and a like increase in federal funds for a change in Federal Medicare Reimbursement.
- A reduction of $372,762 in general funds and $22,969 in federal funds and an increase of $59,961 in other funds for reductions in travel, internal service funds, pharmacy, residency program and MCN bond payment.

Secretary Malsam-Ryson explained that because of federal rules HSC can participate in Medicaid for certain populations, children under 21 and those over 65.

Secretary Malsam-Ryson said the department will open bids for the dietary building remodeling project at the HSC on March 1, 2011 and hope to start construction on April 1, 2011.

Senator Peters asked for specific information on the reductions in pharmacy and bond payments. Mr. Hanson explained because there was an increase in revenue in the drug plan funds, they were swapping $60,000 in general funds for other funds and they believe this swap will be sustainable for the long term. In regard to the bond payment, Mr. Hanson said the Mickelson Center bond payment was decreasing by $14,861. In response to a question on reduction in the food service number of 325 to 286 trustees, Cory Nelson, Administrator of the HSC said the number of trustees is reduced because inmates are being relocated to the new Rapid City unit.

Senator Heineman asked about the cut to the residency program. Secretary Malsam-Ryson said this was a planned program that will not be implemented.

Senator Peters asked why there had been an increase in the dietary bond payment. Mr. Hanson said the department had expected only one payment in FY11, they now know there will be 2 payments for FY12. The department was projecting that the total bond payment would be $487,500. There is a 45% refund attached to that, $111,000 with a net payment of $376,000. The bond was sold on the premise it would be budget neutral and the department expected to generate enough revenue to cover the payment. However, the revenue has increased dramatically; to date the bond has brought in $2.2 million and that revenue goes directly to the general fund.

Senator Peters asked for information on the federal funds for maintenance and repair related to the prescription drug program. Mr. Hanson said the HSC M&R fund had grown considerably. With HSC in the midst of their admissions project because they were not doing some of the typical M&R projects and the same was true at the Developmental Center at Redfield with their construction project. M&R projects were not being completed because resources were dedicated to the 2 large projects. In addition, the department received ARRA dollars for energy conservation measures so the 2 facilities are working to complete those projects. The current cash balance of the HSC M&R fund is $2.6 million. The department does have a long-term project list for both facilities that totals approximately $7 million. Mr. Hanson said the department will not obligate contracts unless they know the funding is in place; however they are in position to move forward with the M&R projects. In addition, HSC has $1 million in projects slated with work requests at the State Engineer's Office.

Senator Peters asked how the money gets into the M&R fund. Mr. Hanson said the HSC M&R fund is a funded depreciation account. The department leverages federal dollars, and at the end of every quarter when they cost settle with Medicaid they transfer the allowable amount of depreciation into that account. Senator Peters asked if this was the only program with HSC that funded depreciation with funds going into a separate account and not the general fund. Secretary Malsam-Rysdon said HSC is the only facility that has its own account. Senator Peters commented that when the Department of Social Services bills Medicaid the department receives a percentage of administration which can be used to fund depreciation; however, those funds go into the general fund and do not fund a depreciation account. Secretary Malsam-Rysdon said the Department of Social Services, outside of the HSC, does not have a funded depreciation account.

However, those are allowable costs for the agencies that the department sets rates for and would pass on any depreciation as part of drawing down federal funds and they would fund their own depreciation for their own facility based costs.

Division of Mental Health – recommended budget of $28,274,496 and 24.0 FTEs
Secretary Malsam-Ryson said 16 of the 24 FTEs were direct support workers in the Department of Corrections. Budget changes involve:

- FMAP change of $831,154 from federal funds to general funds.
- An increase of $180,154 and $141,516 in federal funds for the Children's SED Waiting List.
- An increase of $73,185 in general funds and $67,783 in federal funds for the Adult CARE Waiting List.
- A reduction of $1,076,486 in general funds and $974,374 in federal funds due to Provider Reimbursement Rate Reductions to Community Mental Health providers.
- A reduction of $63,409 in general funds, $3,606 in federal funds and $1,419 in other funds for reductions for travel, internal service funds and provider and community training.

Secretary Malsam-Ryson told the Committee 179 children are currently on the Children's SED waiting list and 67 adults on the Adult CARE waiting list.

Division of Alcohol & Drug – recommended budget of $24,912,861 and 53.0 FTEs
Budget changes involve:

- FMAP change of $284,144 from federal funds to general funds.
- A reduction of $442,000 in Tobacco Funds.
- An increase of $493,594 in general funds and $622,666 in federal funds for Transition Adolescent Inpatient Treatment to Psychiatric Residential Treatment Facility Classification.
- A reduction of $1,128,007 in general funds and $340,008 in federal funds for provider reimbursement rate reductions.
- A reduction of $544,083 in general funds for a reduction to Community Meth Specific Treatment.
- A reduction of $3,234 in general funds and $5,429 in federal funds for reductions in travel and internal service funds.

Secretary Malsam-Ryson said there are limitations in this division for services provided through Medicaid for substance abuse. Medicaid is for children and pregnant women only. The reduction to Community Meth Specific Treatment involves very specialized and intensive community based programs in Rapid City and Sioux Falls. While the department anticipates being able to serve everyone who needs the high level of care, the number of those needing the lower level of care has increased. Those individuals will be served by the community based providers.

Boards – Informational – recommended budget of $391,629 and 1.3 FTEs -0-
The budget increases/decreases involve a total reduction of $415 in internal services.

Public Comments
Terry Dosch, Executive Director of the SD Council of Mental Health Centers and SD Council of Substance Abuse Directors addressed the Committee regarding the proposed budget cuts. Mr. Dosch said the service populations his agencies deal with are children with serious emotional disturbances and adults with severe mental illness as well as indigents with documented alcohol and drug dependencies. Mr. Dosch said his agencies are highly regulated and the clients are extremely vulnerable so the rules assure continuity and high quality of services at all levels to prevent higher costs later and assure accountability back to the state in doing so. Mr. Dosch said his agencies rely heavily on home based services for children. The agencies work to determine eligibility and bill other agencies first. They also work to get clients on indigent medication programs rather than relying on state funding. Mr. Dosch said between 55% and 80% of the total revenues rely on state contract dollars. The agencies have tightened their belts over the past 2 years and are now at the end of their ability to absorb the cuts. The proposed budget cuts will force agencies to cut as many as 65 staff. In addition the budget cuts will impact the rural agencies and some will be forced to close. The agencies will do the best they can but quite possibly not be able to serve approximately 925 people.

Phyllis Arends with Community Mental Health in Sioux Falls said cutting the budget for community mental health is like kicking the can down the road. These individuals will not go away; they will be forced to receive services through emergency room visits, hospitalization or the judicial system.

Lois Knoke from Huron spoke of her experience with the Community Mental Health Center in Huron and the services they have provided to her over the years.

Closing Comments
Senator Brown said it was important that providers know the reduction is a10% cut. A fee of $100 this year would be $90 next year, with $4 being state and $6 being federal.

Representative White asked Secretary Malsam-Rysdon how the department would move toward working with the three hospitals that expressed a willingness to work with the department. Secretary Malsam-Rysdon said this is the next challenge for the department and working with providers on the FY12 budget will be a high priority for the department. Relative to Medicaid, in addition to committee currently in place, Governor Daugaard has put together a Medicaid working group that is looking for short-term solutions to the immediate budget issues. The department will continue to work with those agencies on proposals they want to bring forward relative to their ideas on how they can help the state better manage the costs associated with Medicaid.

Senator Rampelberg said the Committee and department are making an assumption that the federal funds will be available and asked Secretary Malsam-Rysdon if they were aware of any issues that would affect the sustainability of federal funds. Secretary Malsam-Rysdon said it was too early in the federal budget cycle to tell what will come out of the new budget; however, they do know the low income energy assistance budget is slated to be cut by 50%.

Representative Bolin asked if there would be a need for federal waivers if South Dakota made changes to Medicaid. Secretary Malsam-Rysdon said Medicaid is governed by the state plan which is essentially a contract between the state and the federal government for how we are going to use the federal Medicaid dollars. Any changes would need to be approved and waivers may or may not come into play depending on the extent of the changes. Federal oversight will be necessary for any changes.

Senator Tidemann asked what funds can be used to match Medicaid. Secretary Malsam-Rysdon said federal guidelines require matching funds to come from a taxing entity (governments, schools). Federal funds are not "returned", the state doesn't draw down federal money that it is not able to match.

Senator Heineman commented on the small number of FTE changes despite the rise in case loads. Secretary Malsam-Rysdon said the department is proposing a 7.7 FTE reduction and is up against the rise in case loads, eligibles and the number of people applying for benefits. While there isn't a huge reduction in FTE, the department is also not asking for additional FTE to handle the increased workload. Secretary Malsam-Rysdon said the department is always looking at more efficient ways of doing what they do and technology is sometimes the answer. They take a hard look at the processes they use and are constantly reviewing how they do things.

MOTION: ADJOURN

Moved by: Haverly
Second by: Carson
Action: Prevailed by voice vote.

Barb Bjorneberg
Committee Secretary

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Dean Wink, Chair